

Remarks of William G. Rosenberg
Chairman and President
Michigan Broadband Development Authority

Meeting of the Urban Core Mayors

January 29, 2003

Mr. and Madame Mayors—thank you for the opportunity to address your group this afternoon. I am Bill Rosenberg, Chairman and President of the newly created Michigan Broadband Development Authority (MBDA).

I believe all of you were aware or even involved in discussions last year on the legislative package that led to the creation of the Broadband Authority. On a bi-partisan and near unanimous basis, the Michigan Legislature created the Broadband Authority this past spring, charging it with one fundamental goal: ***attract public and private investment that will both expand broadband infrastructure and increase utilization of broadband services among users all across the state.***

The Broadband Authority was empowered by the legislature to do this in two ways: 1) by offering low-cost loans to telecommunications companies willing to make such investments and 2) by offering private, public and government organizations or “broadband users” low-cost financing for the acquisition of computers, hardware and or software applications that will improve or increase their use of broadband service. I want to stress this latter function because many I speak to are not aware that the MBDA has this ability to help stimulate broadband demand by supporting information technology acquisitions.

In fact, for governments needing important I.T. upgrades but also facing tight budgets, we can offer flexible payment terms (interest only provisions and even deferments if desired) utilizing AA-rated tax-exempt financing rates. Allowing more flexible amortization schedules than private lenders also enables lower annual costs. Today, for example, these rates could translate into a 3.5% to 4% interest rate for a 3- to 5-year loan or equipment lease arrangement with a government entity.

Opening our offices this past July, the model for the Broadband Authority is one that I believe most of you are familiar with—that being the Michigan State Housing Development Authority (MSHDA). Neither the Broadband Authority nor MSHDA rely upon any state appropriations. As you know, MSHDA issues bonds (under the moral obligation of the state) and uses the proceeds to finance housing initiatives in underserved areas of the state. These bonds must be repaid from project revenues and unlike other government convertible loans and grants, MSHDA and the Broadband Authority must be diligent in their underwriting processes to ensure viable repayment mechanisms exist. Defaults can trigger negative bond-ratings.

Over the years MSHDA has attracted more than \$8 billion worth of investment in some 400,000 homes in virtually every community around the state. They have built a solid portfolio of loans to mitigate risk and earn one of Wall Street's highest credit ratings for such agencies.

Similarly, the MBDA seeks and is, in fact, charged with attracting and facilitating broadband investments of all types. It will do so by similarly issuing bonds and using proceeds to make loans for broadband infrastructure and user projects. Proposed projects will be reviewed using three fundamental measures:

1. Public benefit/purpose
2. Project feasibility/technology capability
3. Credit worthiness of project/applicants

But we are far more than a finance entity. In fact, I want to stress the “development” nature of this new state agency. There is a reason we were named the Broadband “Development” Authority and NOT the Broadband “Finance” Authority (which actually was used in initial bill drafts). The vision was and is for the Broadband Authority to be more than a bank. It was that we would also be an agency focused on facilitating partnerships, identifying potential investment projects and leveraging additional financial resources (wherever they might be found) to increase and enhance broadband utilization across the state. And given the nature of the Broadband Authority's staff experience in economic development and the telecommunications industry, this “project development” or “advocacy” tool is something we consider to be one of our most important values to the parties we work with.

We have already utilized this development function to facilitate two major broadband projects. One “development” effort partners Charter Communications (one of the state's largest cable companies) with Merit Network (the non-profit provider of high-speed Internet service to the majority of universities, colleges, schools and libraries in the state). When completed later this year, the joint project will provide a new backbone fiber network that stretches from Petoskey north over the Mackinac Bridge to Sault Ste. Marie and west to Munising—connecting to the rest of Charter's statewide network. The project combines a set of very complex purchasing agreements that in essence give Merit ownership of a small fiber slice along

more than 800 miles of Charter's routes throughout the state. Financing for the project also includes a rather complex mix of MBDA loans and MEDC grants. The project will save Michigan universities an estimated \$15 to \$20 million over the life of the loan and create a "virtual bridge" between the states peninsulas. It will also provide heretofore unrealized connectivity for the eastern U.P. and create a redundant fiber loop for both parts of the state (today high-speed Internet service comes via networks routed through Wisconsin). Bottom line: this project was needed to fill a major infrastructure gap in our state. It needed to happen...and the MBDA turned every leaf until it developed a way to make the project a reality.

Another Broadband Authority "development" initiative involves the construction of a new data center and home for Internet 2 (a non-profit research consortium consisting of universities and several dozen broadband technology companies developing the next generation of Internet technologies) in Ann Arbor. This "Michigan Information Technology Center" will create a globally recognized development cluster for the broadband industry. In order to help make this project a reality, the MBDA worked with the MEDC and others to develop a mechanism to finance the building's construction. The MBDA also agreed to be a tenant to help ensure a strong revenue stream for repayment. Since two of the prime tenants did not have a credit history of any kind, lease and operating deficit guarantees were negotiated with the developer. The developer also agreed to provide 25% cash equity in the project. The initiative is a vitally important economic development effort supported by Mayor Hieftje and other Ann Arbor leaders that uniquely joins academia, business and government in a center that will incubate new broadband companies and technologies.

I certainly don't need to reiterate many of the arguments you hear about how important broadband infrastructure is to the future competitiveness of our state and your cities—otherwise you wouldn't have asked me here.

And let me commit to each of you here today...as you and your regions identify fundamental broadband infrastructure projects that you need to make happen for your community... just like our effort in the eastern U.P. and northern lower peninsula, we stand ready to do all we can to help you make such projects a reality.

That having been said let me underscore the obvious about this whole broadband issue: access to affordable high-speed Internet service is vital to every urban, suburban and rural part of Michigan. Whether for education, healthcare, government services or business development, high-speed Internet access, or lack thereof, is going to impact your cities more and more in the coming years. In fact, we are nearing the point where affordable broadband access is an “expected” service for a region—much like electric, gas, water or other infrastructure services are thought of today.

Likewise, governments’ utilization of broadband to improve services is more and more becoming expected—whether it is filing taxes, applying for local permits, or downloading maps and other information. In fact, we are currently working with several government agencies to help them finance e-government systems, most recently the Michigan Department of Natural Resources (DNR). The DNR is working to create a real-time broadband connected “kiosk” licensing system to replace their current system used at some 1700 retail establishments around the state. In short, the Broadband Authority will purchase the hardware and software systems selected by the DNR and lease the items to them over a 5-year period. At the end of this term, ownership of the system will transfer to the DNR.

Today we have a multitude of potential providers of broadband service and information technology equipment. In addition to system integrators like IBM, Accenture and EDS, there are the traditional phone companies, providing DSL and T-1 services. There are the cable companies with their cable-modem service. There are the unlicensed fixed-wireless providers that can provide low-cost but sometimes less reliable high-speed service. There are the licensed fix-wireless providers, many of whom are not yet using their licenses to provide service. There are the satellite providers that generally have fast download service but slower upload service. Why, this past week we even had discussions with an American Electric Power-backed start-up company that is looking to identify test markets for their new broadband service through electric lines. In other words, there is no “one” provider that can be forced or “regulated” into providing service everywhere.

Furthermore, in this setting no one technology provides the ultimate solution. There are advantages and disadvantages to every technology depending on the needs of individual users. For manufacturers doing real-time on-line design with their automotive customers, DSL, cable modem service can be too slow for such functions. Similar applications in

healthcare and education would also be limited by such “slow” broadband service. So if your city has such access but doesn’t have affordable higher speed services, you can’t rest easy as to whether your city has adequate infrastructure.

With regulatory “rate-of-return” structures a relic of the past, there is also no longer any natural governance or leadership structure to develop “a plan” to provide universal service in a state or region. On top of this, add in the chaos, dysfunction and consolidation we have seen in the telecommunications and information technology sectors in recent years. In the midst of this environment, what can be done to help facilitate new and better-coordinated broadband infrastructure investment strategies?

Part of the answer was seen in the fantastic presentation made before me—that being the importance of having a local champion that can push forward with the type of assessment and planning needed to facilitate new broadband investment. There are several fundamental efforts that must be made at the local level. They include such things as:

1. Building community awareness about the importance of broadband infrastructure;
2. Assessing local and/or regional utilization of broadband services;
3. Identifying primary providers of broadband service and their service areas;
4. Aggregating groups of large and medium-sized users to attract providers of service or to leverage additional investment or competition among broadband providers;
5. Identifying infrastructure gaps that need to be filled in a region so as to better ensure affordable and reliable broadband service in the future;
6. Identifying financing strategies and resources necessary to pay for non-economic elements of the gaps identified in a region.

I am happy to say that the wheels have or will soon be set in motion to address these matters in most regions around the state. Lansing obviously has a leg up given Mayor Hollister’s work, but the Michigan Economic Development Corporation (MEDC), as part of their LinkMichigan initiative, has provided some \$3 million for their LinkMichigan Regional Planning Program. This program compliments the Broadband Authority capabilities by providing matching funds for communities to do the analysis and do the

type of planning outlined above. I believe all but one county in the state (and city therein) is now part of this program and has or soon will be initiating these efforts in your region. Our view is that good planning creates a foundation that will lead to good projects, so we are closely monitoring and participating in the LinkMichigan planning efforts.

I have asked Bob Filka of my staff, who is here with me today, to initiate contact with each of your offices and staff over the next few weeks. Prior to moving over to the Broadband Authority, Bob was in charge of Strategic Initiatives at the Michigan Economic Development Corporation and authored the LinkMichigan Report that led to this planning program among other things. Bob works hard to stay on top of who is doing what where around the state with regard to broadband and I've asked him to become your staff's liaison with the Authority. He can be a great resource for you and as ideas and initiatives emerge from your cities and regions, we will be poised and ready to help in any way we can.

In closing, let me stress my hope that today is just the beginning of a dialogue with each of you and your offices. The Broadband Authority is not the "cure-all" for all of the broadband infrastructure gaps and problems around the state. We don't have all the answers and we don't have all the financial resources. But, again, we are uniquely positioned to help facilitate solutions in response to local leadership and project visions. That is really what I am here to offer today... as you and your regions identify fundamental broadband infrastructure projects that you need to make happen for your community... just like our effort in the eastern U.P. and northern lower peninsula, we stand ready to do all we can to help you make such projects a reality.

Thank you for the opportunity to address you this afternoon. I look forward to working with each of you!